

**NORTH EMERY WATER USERS SPECIAL SERVICE DISTRICT**

**(A COMPONENT UNIT OF EMERY COUNTY)**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2005**

**NORTH EMERY WATER USERS SPECIAL SERVICE DISTRICT  
(A COMPONENT UNIT OF EMERY COUNTY)  
TABLE OF CONTENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

	<u>PAGE</u>
<b><u>OPINION</u></b> Independent Auditors' Report	1-2
<b><u>MD&amp;A</u></b> Management Discussion and Analysis	3-8
 <b><u>BASIC FINANCIAL STATEMENTS</u></b>	
<b>Government-Wide Financial Statements:</b>	
EXHIBIT A                      Statement of Net Assets - Proprietary Funds	9-10
EXHIBIT B                      Statement of Revenues, Expenses and Changes in Fund Net Assets - Proprietary Funds	11
EXHIBIT C                      Statement of Cash Flows - Proprietary Funds	12-13
Notes to Financial Statements	14-24
 <b><u>REPORTS ACCORDING TO GOVERNMENT AUDITING STANDARDS</u></b>	
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Govern- ment Auditing Standards	25-26
 <b><u>SUPPLEMENTAL STATE COMPLIANCE</u></b>	
Report on Legal Compliance with Applicable Utah State Laws and Regulations	27-28

# SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.

R. KIRT RICH, C.P.A.

GREG MARSING, C.P.A.

DOUGLAS RASMUSSEN, C.P.A.

## MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
North Emery Water Users Special Service District  
Cleveland, Utah 84518

Ladies/Gentlemen:

We have audited the accompanying financial statements of the business-type activities of North Emery Water Users Special Service District (a component unit of Emery County), as of and for the year ended December 31, 2005, which collectively comprise the District's basic financial statements as listed in the financial section of the table of contents. These financial statements are the responsibility of North Emery Water Users Special Service District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

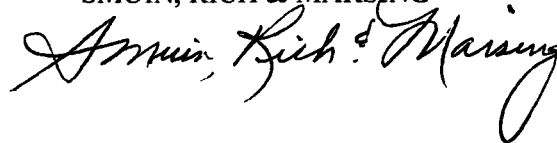
We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of North Emery Water Users Special Service District as of December 31, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 26, 2006, on our consideration of North Emery Water Users Special Service District's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis, as listed in the financial section of the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Armin Rich & Marsing", is written over the printed firm name.

Price, Utah

January 26, 2006

**NORTH EMERY WATER USERS SPECIAL SERVICE DISTRICT  
(A COMPONENT UNIT OF EMERY COUNTY)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

---

As management of North Emery Water Users Special Service District (the District), we offer readers of the District's financial statements this narrative overview and analysis of financial activities of the District for the fiscal year ended December 31, 2005.

**FINANCIAL HIGHLIGHTS**

- \* Total net assets increased by \$151,252, which is the net income for the year.
- \* Unrestricted net assets increased by \$67,933.
- \* Operating revenues increased by \$16,852.
- \* Operating expense increased by \$18,555.
- \* Net operating income decreased by \$1,703.

**BASIC FINANCIAL STATEMENTS**

The District is a special-purpose government engaged in business-type activities. All transactions related to its activities are recorded in a single enterprise fund. Enterprise funds are used to account for operations financed and operated in a manner similar to private business enterprises where the intent is that the cost of providing goods and services (including depreciation), on a continuing basis, be financed or recovered primarily through user charges.

The financial statements presented in this report are those required of an enterprise fund and consist of (1) the statement of net assets, (2) the statement of revenues, expenses, and changes in net assets, (3) the statement of cash flows, and (4) the notes to the financial statements.

The statement of net assets presents information on all the District's assets and liabilities, with the difference between the two as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating. However, other non-financial factors need to be considered as well.

The statement of revenues, expenses, and changes in net assets (the income statement) presents information about the amounts of revenues, expenses, and resulting net income for the year. Net income is the change in net assets. All items of income and expense are reported as soon as the underlying event giving rise to those items occurs, regardless of when cash is received or paid.

The statement of cash flows starts with the amounts of net income and removes the non-cash portion (the receivables and payables which did not provide or use cash), thus converting the amounts to a cash basis. The notes to the financial statements provide additional information to further explain the data presented in the financial statements.

## THE DISTRICT AS A TRUSTEE

The District does not hold any funds or property in a trustee capacity.

## FINANCIAL ANALYSIS

**Table 1**  
**Net Assets**

	<b>Business-Type Activities</b>		
	<b>2004</b>	<b>2005</b>	<b>Change</b>
Current and other assets	\$ 271,389	\$ 363,864	\$ 92,475
Capital assets	<u>3,475,702</u>	<u>3,525,877</u>	<u>50,175</u>
Total assets	<u>\$ 3,747,091</u>	<u>\$ 3,889,741</u>	<u>\$ 142,650</u>
Long-term liabilities	\$ 349,339	\$ 312,837	\$ (36,502)
Other liabilities	<u>46,997</u>	<u>74,897</u>	<u>27,900</u>
Total liabilities	<u>\$ 396,336</u>	<u>\$ 387,734</u>	<u>\$ (8,602)</u>
Net assets:			
Invested in capital assets, net of debt	\$ 3,075,284	\$ 3,160,757	\$ 85,473
Restricted	95,126	92,972	(2,154)
Unrestricted	<u>180,345</u>	<u>248,278</u>	<u>67,933</u>
Total net assets	<u>\$ 3,350,755</u>	<u>\$ 3,502,007</u>	<u>\$ 151,252</u>

As noted earlier, net assets may serve over time as a useful indicator of financial position. Assets exceeded liabilities at the close of the year by \$3,502,007, an increase of \$151,252, indicating that the overall financial position has improved during the year.

Unrestricted net assets increased during the year by \$67,933 to \$248,278 at the close of the year. Unrestricted net assets are those available to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements.

Current and other assets representing the more liquid assets of the District increased by \$92,475 to \$363,864 at year-end.

**FINANCIAL ANALYSIS (Continued)**

The increase in capital assets represents the amount of monies expended on capital assets was more than the amount of depreciation charged to operations.

**Table 2**  
**Changes in Net Assets**

	<b>Business-Type Activities</b>		
	<b>2004</b>	<b>2005</b>	<b>Change</b>
<b>Revenues</b>			
Program Revenues:			
Charges for services	\$ 169,277	\$ 186,129	\$ 16,852
Capital grants and contributions	76,165	153,335	77,170
General Revenues:			
Grants and contribution not restricted	78,727	82,012	3,285
Other general revenues	11,225	14,809	3,584
<b>Total revenues</b>	<b>\$ 335,394</b>	<b>\$ 436,285</b>	<b>\$ 100,891</b>
<b>Program expenses</b>			
Culinary Water:			
Salaries and fringe	\$ 98,083	\$ 101,497	\$ 3,414
Materials and supplies	20,231	18,303	(1,928)
Contract services	3,728	3,127	(601)
Utilities	5,234	5,721	487
Insurance	8,143	8,092	(51)
Depreciation	110,510	122,145	11,635
Other	20,549	26,148	5,599
<b>Total expenses</b>	<b>\$ 266,478</b>	<b>\$ 285,033</b>	<b>\$ 18,555</b>
<b>Change in net assets</b>	<b>\$ 68,916</b>	<b>\$ 151,252</b>	<b>\$ 82,336</b>
<b>Net assets - beginning</b>	<b>\$ 3,281,839</b>	<b>\$ 3,350,755</b>	
<b>Net assets - ending</b>	<b>3,350,755</b>	<b>3,502,007</b>	
	<b>\$ 68,916</b>	<b>\$ 151,252</b>	

## FINANCIAL ANALYSIS (Continued)

Net income increased by \$82,336 compared with the net income of the previous year. However, non-operating items increased by \$84,039 compared to the previous year, which, for the most part, is the result of CIB grant monies received during the year for the use in capital asset acquisition.

Net operating income (the net income resulting from the distribution and sale of water) increased by \$16,852 compared to last year, resulting in a net operating loss for the year of \$98,904. This means that for the year ended December 31, 2005, the cost of providing water service to customers exceeded the income for that service by \$98,904.

Water service income increased by \$20,137 over the previous year, while other operating income (miscellaneous) decreased by \$3,285.

Depreciation expense is the largest single element of operating cost and it increased \$11,635 over the prior year. Other operating expenses consisting of labor, maintenance, and administrative expenses, increased \$6,920 compared to the previous year.

## BUDGETARY HIGHLIGHTS

The District operates as an enterprise fund, and prepares an operating budget on an entity-wide basis, which is used for control purposes during the year. No amendments were made to the original budget amounts.

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

**Table 3**  
**Capital Assets at Year-End**  
**(Net of Depreciation)**

	<b>Business-Type Activities</b>		
	<b>2004</b>	<b>2005</b>	<b>Change</b>
Water stock	\$ 841,302	\$ 850,302	\$ 9,000
Land	22,507	22,507	
Buildings	3,221	2,632	(589)
Treatment and distribution system	2,436,996	2,448,794	11,798
Equipment & vehicles	72,885	108,670	35,785
Work in progress	3,665		(3,665)
Net capital assets	<u>\$ 3,380,576</u>	<u>\$ 3,432,905</u>	<u>\$ 52,329</u>



## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets (Continued)

This year's major additions included:

Microfloc Treatment Facility	
Paid with CIB grant and Energy West contribution	\$ 120,788
Electronic meters	
Paid with District Funds	<u>47,488</u>
	<u>\$ 168,276</u>

During the year, Capital assets, net of depreciation, increased by \$52,329. This represents the difference between the amount expended for capital assets and the annual depreciation charge. Additional information may be found in the notes to the financial statements.

The District's fiscal year 2006 capital budget calls for it to spend approximately \$20,000 for the purchase of a new truck.

### Debt

At year-end, the District had \$272,148 in revenue bonds outstanding. Principal was repaid on the bonds in the total amount of \$33,144, which was the only change in long-term debt during the year. Additional information regarding the long-term debt may be found in the notes to the financial statements as well as in the table below.

**Table 4**  
**Outstanding Debt at Year-End**

	<u>Business-Type Activities</u>		
	<u>2004</u>	<u>2005</u>	<u>Change</u>
Water Revenue Bond Series 2001	\$ 257,792	\$ 229,148	\$ (28,644)
Water Revenue Bond Series 2004	<u>47,500</u>	<u>43,000</u>	<u>(4,500)</u>
	<u>\$ 305,292</u>	<u>\$ 272,148</u>	<u>\$ (33,144)</u>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The District's 2006 budget is 19.67% lower than in 2005. The primary difference between the two years is that in 2005 the District budgeted for CIB grant funds and in 2006 they did not budget for any grants from the CIB.

## **CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, customers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District Board Office at P.O. Box 129, Cleveland, Utah 84518.

**NORTH EMERY WATER USERS SPECIAL SERVICE DISTRICT**  
**(A COMPONENT UNIT OF EMERY COUNTY)**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2005**

**BUSINESS-TYPE ACTIVITY**  
**ENTERPRISE FUND**

---

**CULINARY WATER SYSTEM**

---

**ASSETS**

**Current Assets:**

Cash	\$ 156,768
Investments, at cost	183,153
Accounts receivable, net	9,957
Inventory	7,459
Prepays	6,527
	<hr/>
Total current assets	\$ 363,864

**Noncurrent Assets:**

**Restricted:**

Investments	\$ 92,972
-------------	-----------

**Capital Assets:**

Land	22,507
Water stock	850,302
Buildings	11,281
Treatment and distribution system	4,011,521
Vehicles	49,240
Equipment	179,667
Less: accumulated depreciation	<hr/> (1,691,613)

Total noncurrent assets	<hr/> 3,525,877
-------------------------	-----------------

Total assets	<hr/> \$ 3,889,741
--------------	--------------------

"The accompanying notes are an integral part of this statement."

**NORTH EMERY WATER USERS SPECIAL SERVICE DISTRICT**  
**(A COMPONENT UNIT OF EMERY COUNTY)**  
**STATEMENT OF NET ASSETS**  
**PROPRIETARY FUNDS**  
**DECEMBER 31, 2005**

**BUSINESS-TYPE ACTIVITY**  
**ENTERPRISE FUND**

**CULINARY WATER SYSTEM**

**LIABILITIES AND NET ASSETS**

**Current Liabilities:**

Accounts payable	\$ 39,271
Payroll taxes payable	2,983
Current portion - water revenue bonds	32,643

Total current liabilities	\$ 74,897
---------------------------	-----------

**Noncurrent Liabilities and other credits:**

Deferred revenue	\$ 73,332
Revenue bonds payable	239,505

Total noncurrent liabilities and other credits	\$ 312,837
--	------------

Total liabilities	\$ 387,734
-------------------	------------

**Net Assets:**

Investment in capital assets, net of related debt	\$ 3,160,757
Restricted for debt service	92,972
Unrestricted	248,278

Total net assets	\$ 3,502,007
------------------	--------------

"The accompanying notes are an integral part of this statement."

**NORTH EMERY WATER USERS SPECIAL SERVICE DISTRICT**  
**(A COMPONENT UNIT OF EMERY COUNTY)**  
**STATEMENT OF REVENUES, EXPENSES AND**  
**CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	BUSINESS-TYPE ACTIVITY ENTERPRISE FUNDS
	<u>CULINARY WATER SYSTEM</u>
Operating Revenues:	
Charges for services	\$ 184,979
Miscellaneous	1,150
Total operating revenue	<u>\$ 186,129</u>
Operating Expenses:	
Salaries and benefits	\$ 101,497
Material and supplies	18,303
Contract services	3,127
Utilities	5,721
Insurance	8,092
Depreciation	122,145
Repairs and maintenance	7,672
Auto expense	3,841
Conference and training	5,140
Water samples and assessments	4,615
Director's fees	1,965
Miscellaneous	2,915
Total operating expenses	<u>\$ 285,033</u>
Operating Income/(Loss)	<u>\$ (98,904)</u>
Non-operating Revenues (Expenses)	
Mineral lease	\$ 82,012
CIB grant	153,335
Interest income	10,950
Energy West revenue	3,859
Total non-operating revenues (expenses)	<u>\$ 250,156</u>
Change in net assets	\$ 151,252
Total net assets - Beginning	<u>3,350,755</u>
Total net assets - Ending	<u>\$ 3,502,007</u>

"The accompanying notes are an integral part of this statement."

**NORTH EMERY WATER USERS SPECIAL SERVICE DISTRICT**  
**(A COMPONENT UNIT OF EMERY COUNTY)**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

Cash flows from operating activities:		
Cash received from customers	\$ 186,247	
Cash payments to suppliers for goods and services	(31,958)	
Cash payments to employees for services	(101,256)	
Net cash provided (used) by operating activities		\$ 53,033
Cash flows from noncapital financing activities:		
Mineral lease revenue	\$ 82,012	
Net cash provided (used) by noncapital financing activities		82,012
Cash flows from capital and related financing activities:		
CIB grant	\$ 153,335	
Principal paid on debt	(33,144)	
Acquisition of capital assets	(165,475)	
Acquisition of water shares	(9,000)	
Net cash provided (used) by capital and related financing activities		(54,284)
Cash flow from investing activities:		
Interest on investments received	\$ 10,950	
Net cash provided by investing activities		10,950
Net increase (decrease) in cash and cash equivalents		\$ 91,711
Cash and cash equivalents at beginning of year		341,182
Cash and cash equivalents at end of year		\$ 432,893

"The accompanying notes are an integral part of this statement."

**NORTH EMERY WATER USERS SPECIAL SERVICE DISTRICT**  
**(A COMPONENT UNIT OF EMERY COUNTY)**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

**RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED  
(USED) BY OPERATING ACTIVITIES:**

Operating income (loss)		\$	(98,904)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	\$	122,145	
Change in assets and liabilities:			
Decrease in accounts receivable		118	
Decrease in inventory		967	
Decrease in prepaids		305	
Increase in accrued liabilities		241	
Increase in accounts payable		28,161	
Total adjustments			151,937
Net cash provided (used) by operating activities		\$	53,033

"The accompanying notes are an integral part of this statement."

**NORTH EMERY WATER USERS SPECIAL SERVICE DISTRICT  
(A COMPONENT UNIT OF EMERY COUNTY)  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEAR ENDED DECEMBER 31, 2005**

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the North Emery Water Users Special Service District has been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of the District are described below.

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments. Certain of the significant changes in the Statement include the following:

- 1) A Management's Discussion and Analysis (MD&A) providing an analysis of the District's overall financial position and results of operations.

This and other changes are reflected in the accompanying financial statements (including notes to financial statements).

**A. Reporting Entity**

North Emery Water Users Special Service District is a special service district governed by a seven-member Board of Trustees. The financial statements of the District cover all financial activities over which the District has oversight responsibility. The basic criterion for including an entity, a board, or an agency in this report is the existence and exercise of financial accountability by the District Board. In addition to financial accountability, consideration has been given to financial interdependency, ability to designate management, ability to significantly influence operations, and accountability for fiscal matters.

According to the above criteria, no other entities, boards or agencies have been included in the District's financial statements. But, North Emery Water Users Special Service District is considered a component unit of Emery County.



**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Government-Wide Financial Statements**

The government-wide financial statements consist of the statement of net assets, the statement of revenues, expenses and changes in fund net assets and the statement of cash flows. The District is considered a special-purpose government engaged only in business-type activities. It is classified as a proprietary fund type and operates as an enterprise fund. Enterprise funds are used to account for the operations that are financed and operated in a manner similar to private business enterprises, where the intent of the governing body is that its costs to providing goods and services to the general public on a continuing basis, be financed or recovered primarily through user charges. The function of the District is to provide culinary water services to the population, which lives within the District's boundaries. The financial statements of the District consist only of an enterprise fund and neither fiduciary funds nor component units that are fiduciary in nature are included.

**C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Therefore, revenues are recognized in the accounting period in which they are earned and become measurable and expenses are recognized in the period incurred, if measurable.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government wide or proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for business-type activities, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first then unrestricted resources, as they are needed.

Amounts reported as program revenues include charges to customers or applicants for goods and services associated with culinary water.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales of culinary water services. The District also recognizes as operating revenue the portion of connection fees intended to recover the cost of connecting new customers to the system. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Capital Assets**

Capital assets, which include, land, water stock, buildings, vehicles, equipment and infrastructure are reported in the government-wide financial statements. Capital assets, are defined by the District, as an asset with an individual cost of more than \$750 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of the District is not included as part of the capitalized value of the assets constructed.

Buildings, vehicles, equipment and infrastructure of the District is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	10-30
Vehicles	5-7
Equipment	5-10
Infrastructure	15-40

**E. Budget and Budgetary Accounting**

The District follows the budgetary practices and procedures required by State Law. These requirements are summarized as follows:

1. The District adopts a formal budget.
2. The budget is a complete financial plan, which identified all estimated revenues and all appropriations for expenditures for the year.
3. On or before November 1st, the District Manager prepares a tentative budget and files it with the Board of Trustees.
4. The tentative budget is a public record and is available for public inspection for at least ten days prior to public hearing held to consider adoption of the budget.
5. Notice of the scheduled public hearing is published at least ten days prior to the meetings.
6. Public hearings are held on the tentatively adopted budget. Members of the public may comment on the budget and recommend changes to the Board of Trustees.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

E. **Budget and Budgetary Accounting (Continued)**

7. The Board of Trustees considers the comments made by the public and makes final adjustments to the budget.
8. By December 31, the Board of Trustees adopts the budget by resolution. A copy of the budget is certified by the County Auditor and is filed with the State Auditor within thirty days of adoption. A certified copy of the budget is available for public inspection.
9. The budget may be amended to reflect changes in circumstances, which occur during the year.

F. **Cash and Cash Equivalents**

For purposes of the statement of cash flow, North Emery Water Users Special Service District considers all highly liquid investments with a maturity of six months or less when purchased, to be cash equivalents. All amounts reported on the Statement of Net Assets as cash and investments would be considered cash equivalents.

Investments for the District are reported at fair value. The State Treasurer's Investment Fund operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the value of the pool shares.

G. **Accounts Receivable**

Accounts receivable arise from charges to individual District customers billed and uncollected at the end of the fiscal year for culinary water services. Accounts receivable is reported net of an allowance for uncollectible accounts. The allowance amount is estimated based upon the accounts receivable that is past due.

H. **Compensated Absences**

The District's policy regarding vacation leave and sick leave is such that no liability for compensated absences carries over from one year to the next. Thus, no liability for compensated absences exists at year-end.

I. **Inventories and Prepaids**

Inventory of supplies maintained by the District is stated at cost. The inventory consists of pipes, fittings and pumps used in the operation of the District. Inventories are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting period and are recorded as prepaid items in the government-wide financial statements.

J. **Net Assets**

The difference between total assets and total liabilities represent equity or net assets. Net assets presented in the statement of net assets are subdivided into three categories: net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets.

## 2. DEPOSITS AND INVESTMENTS

The District maintains no investment policy containing any specific provisions intended to limit the District's exposure to interest rate risk, credit risk, and concentration of credit risk other than that imposed by the Utah Money Management Act (Utah Code, Section 51, Chapter 7).

Cash and investments as of December 31, 2005 consist of the following:

	<u>Fair Value</u>
Cash on hand	\$ 159
Demand deposits - checking	71,577
Savings accounts and time certificates	85,032
Investments - PTIF	<u>276,125</u>
Total cash and investments	<u>\$ 432,893</u>

Cash and investments listed above are classified in the accompanying statement of net assets as follows:

Cash and investments	\$ 339,921
Restricted investments	<u>92,972</u>
	<u>\$ 432,893</u>

### **Deposits**

#### *Custodial Credit Risk*

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a formal deposit policy for custodial credit risk. At December 31, 2005, the District's bank balance of cash on deposit was \$156,768 of this amount all was insured.

### **Investments**

The Money Management Act defines the types of securities authorized as appropriate investments for the District and the conditions for making investment transactions. Investment transactions may be conducted only through qualified depositories, certified dealers, or directly with issuers of the investment securities.

## 2. DEPOSITS AND INVESTMENTS (Continued)

### **Investments (Continued)**

Statutes authorize the District to invest in negotiable or nonnegotiable deposits of qualified depositories and permitted negotiable depositories; repurchase and reverse repurchase agreements; commercial paper that is classified as "first tier" by two nationally recognized statistical rating organizations, one of which must be Moody's Investors Services or Standard & Poor's; bankers' acceptances; obligations of the United States Treasury including bills, notes, and bonds; bonds, notes, and other evidence of indebtedness of political subdivisions of the State; fixed rate corporate obligations and variable rate securities rated "A" or higher, or the equivalent of "A" or higher, by two nationally recognized statistical rating organizations; shares or certificates in a money market mutual fund as defined in the Act; and the Utah State Public Treasurer's Investment Fund.

The Utah State Treasurer's Office operates the Public Treasurer's Investment Fund (PTIF). The PTIF is available for investment of funds administered by any Utah public treasurer. The PTIF is not registered with the SEC as an investment company. The PTIF is authorized and regulated by the Money Management Act, Section 51-7, and Utah Code Annotated, 1953, as amended. The Act established the Money Management Council, which oversees the activities of the State Treasurer and the PTIF and details the types of authorized investments. Deposits in the PTIF are not insured or otherwise guaranteed by the State of Utah, and participants share proportionally in any realized gains or losses on investments.

The PTIF operates and reports to participants on an amortized cost basis. The income, gains, and losses – net of administration fees, of the PTIF are allocated based upon the participant's average daily balance. The fair value of the PTIF investment pool is approximately equal to the value of the pool shares.

As of December 31, 2005, the District had the following investments and maturities:

Investment Type	Fair Value	Investment Maturities (in Years)			
		Less Than 1	1-5	6-10	More than 10
State of Utah Public Treasurer's Investment Fund	\$ 276,125	\$ 276,125			
Total Investments	<u>\$ 276,125</u>	<u>\$ 276,125</u>	<u>\$ ...</u>	<u>\$ ...</u>	<u>\$ ...</u>

2. **DEPOSITS AND INVESTMENTS (Continued)**

*Interest Rate Risk*

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District manages this risk in part by investing in the Utah Public Treasurers Investment Fund. The District also manages its exposure to fair value loss arising from increasing interest rates is to comply with the State's Money Management Act. Section 51-7-11 of the Act requires that the remaining term to maturity of investments may not exceed the period of availability of the funds to be invested. The Act further limits the remaining term to maturity on all investments in commercial paper, bankers' acceptance, fixed rate negotiable deposits, and fixed rate corporate obligations to 270-365 days or less. In addition, variable rate negotiable deposits and variable rate securities may not have a remaining term to final maturity exceeding 2 years.

*Credit Risk*

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The District has not adopted a formal policy with regards to credit risk on investments but the District informally follows the policy for reducing its exposure to credit risk is to comply with the State's Money Management Act as previously discussed.

At December 31, 2005, the District had the following investments and quality ratings:

<u>Investment Type</u>	<u>Fair Value</u>	<u>AAA</u>	<u>AA</u>	<u>A</u>	<u>Unrated</u>
State of Utah Public Treasurer's Investment Fund	\$ 276,125				\$ 276,125
Total	\$ 276,125	\$ ...	\$ ...	\$ ...	\$ 276,125

*Concentration of Credit Risk*

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. The District informal policy for reducing this risk of loss is to comply with the Rules of the Money Management Council. No more than 5% of all funds may be invested in securities of a corporation that has been in continuous operation for less than three years. No more than 5% of the outstanding voting securities of any one corporation may be held. In addition, Rule 2 limits investment concentrations in certain types of investments. Rule 17 of the Money Management Council limits investments in a single issuer of commercial paper and corporate obligations to 5-10% depending upon the total dollar amount held in the portfolio.

2. **DEPOSITS AND INVESTMENTS (Continued)**

*Custodial Credit Risk*

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The District does not have a formal policy for custodial credit risk. As of December 31, 2005, the District had \$276,125 invested in the Public Treasurer's Investment Fund and was held by them.

3. **PENSION**

**Local Governmental - Cost Sharing**

**Plan Description.** North Emery Water Users Special Service District contributes to the Local Governmental Noncontributory Retirement System, a cost-sharing multiple-employer defined benefit pension plan administered by the Utah Retirement Systems. Utah Retirement Systems provide refunds, retirement benefits, annual cost of living adjustments and death benefits to plan members and beneficiaries in accordance with retirement statutes.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 as amended. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issue a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

**Funding Policy.** In the Local Governmental Noncontributory Retirement System North Emery Water Users Special Service District was required to contribute 11.09% of their annual employees covered salary from January 2005 to June 2005, and then the contribution rate from July 2005 to December 2005 was 11.09%. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

North Emery Water Users Special Service District's contributions to the Noncontributory Retirement System for December 31, 2005, 2004 and 2003 were \$7,755, \$7,153 and \$6,518 respectively. The contributions were equal to the required contributions for each year.

4. **RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. To cover these liabilities, the District has contracted with commercial insurance companies. There have been no significant reductions in insurance coverage from coverage in the prior year. The District pays an annual premium for this coverage.

5. **RELATED PARTY TRANSACTIONS**

During the year ended December 31, 2005, the District did not enter into any transactions that were with related parties.

6. **CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2005 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
<b>Business-type activities:</b>				
Capital assets not being depreciated:				
Land	\$ 22,507			\$ 22,507
Water stock	841,302	\$ 9,000		850,302
Work in progress	3,665		\$ (3,665)	
<b>Total capital assets not being depreciated</b>	<b>\$ 867,474</b>	<b>\$ 9,000</b>	<b>\$ (3,665)</b>	<b>\$ 872,809</b>
Capital assets being depreciated:				
Buildings	\$ 13,542		\$ (2,261)	\$ 11,281
Treatment and distribution system	3,890,733	\$ 120,788		4,011,521
Vehicles and equipment	196,893	48,352	(16,338)	228,907
<b>Total capital assets being depreciated</b>	<b>\$ 4,101,168</b>	<b>\$ 169,140</b>	<b>\$ (18,599)</b>	<b>\$ 4,251,709</b>
Less accumulated depreciation for:				
Buildings	\$ 13,542	\$ 588	\$ (5,481)	\$ 8,649
Treatment and distribution system	1,430,212	108,989	23,526	1,562,727
Vehicles and equipment	144,313	12,568	(36,644)	120,237
<b>Total accumulated depreciation</b>	<b>\$ 1,588,067</b>	<b>\$ 122,145</b>	<b>\$ (18,599)</b>	<b>\$ 1,691,613</b>
<b>Total capital assets, being depreciated, net</b>	<b>\$ 2,513,101</b>	<b>\$ 46,995</b>	<b>\$ ...</b>	<b>\$ 2,560,096</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 3,380,575</b>	<b>\$ 55,995</b>	<b>\$ (3,665)</b>	<b>\$ 3,432,905</b>



7. **LONG-TERM DEBT**

Annual debt service requirements to maturity for revenue bonds are as follows:

Year Ending December 31,	Business-type Activities		
	Water Revenue Bonds Series 2001	Water Revenue Bonds Series 2004	Total
2006	\$ 28,643	\$ 4,000	\$ 32,643
2007	28,643	4,000	32,643
2008	28,643	5,000	33,643
2009	28,643	5,000	33,643
2010	28,643	5,000	33,643
2011-2014	85,933	20,000	105,933
Total	<u>\$ 229,148</u>	<u>\$ 43,000</u>	<u>\$ 272,148</u>

**Revenue Bond** – Revenue bonds payable at December 31, 2005, with their outstanding balance is comprised of the following two issues.

**Business-type Activities**

\$286,435 Water Revenue Bonds, Series 2001, due in annual installments of \$28,643 beginning on August 1, 2004 through August 1, 2013, at a zero percentage interest rate. \$ 229,148

\$47,500 Water Revenue Bonds, Series 2004, due in annual installments of \$4,500 the first year (2005), \$4,000 the 2nd and 3rd years, and \$5,000 the remaining years through 2014 at a zero percentage interest rate. 43,000

Total Business-type Activities \$ 272,148

The water revenue bonds were issued by the District to replace, upgrade, improve and construct water lines in several locations within the service area boundaries of the District.

7. **LONG-TERM DEBT (Continued)**

Changes in long-term liabilities

Long-term liability activity for the year ended December 31, 2005, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Business-type activities:</b>					
Revenue bonds payable:					
Revenue bonds CIB	\$ 305,292	\$ ...	\$ (33,144)	\$ 272,148	\$ 32,643

8. **RESTRICTED CASH/NET ASSETS**

The Board of Trustee has restricted cash in the amount of \$32,180 for the replacement of capital assets. Corresponding amounts have been restricted in net assets to reflect that this amount of net assets has been reserved. The District also has restricted \$60,792, which is held in a Public Treasurers Investment Pool account to be used as bond sinking and reserve funds to comply with bond covenants for their water revenue bonds. Likewise, these funds have been restricted in net assets.

9. **ACCOUNTS RECEIVABLE**

Accounts receivable include outstanding customer accounts. The accounts receivable consisted of the following:

	Total
Water Receivable	\$ 11,839
Less Allowance for Doubtful Accounts	(1,882)
Accounts receivable, net	<u>\$ 9,957</u>

# SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.  
R. KIRT RICH, C.P.A.  
GREG MARSING, C.P.A.  
DOUGLAS RASMUSSEN, C.P.A.

## MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
North Emery Water Users Special Service District  
Cleveland, Utah 84518

RE: Report on Compliance and on Internal  
Control Over Financial Reporting Based  
on an Audit of Financial Statements Per-  
formed in Accordance With Government  
Auditing Standards

We have audited the financial statements of North Emery Water Users Special Service District as of and for the year ended December 31, 2005, and have issued our report thereon dated January 26, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance and Other Matters

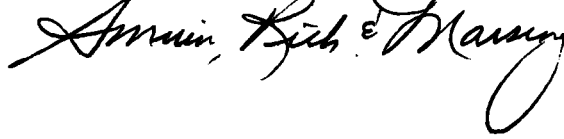
As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards.

### Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, the board of trustees, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, appearing to read "Ammin, Rich & Marsing", written in dark ink.

Price, Utah

January 26, 2006

# SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

294 East 100 South

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.  
R. KIRT RICH, C.P.A.  
GREG MARSING, C.P.A.  
DOUGLAS RASMUSSEN, C.P.A.

## MEMBERS

AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors  
North Emery Water Users Special Service District  
Cleveland, Utah 84518

RE: Auditors' Report on State  
Compliance for State Grants

We have audited the financial statements of the business-type activities of North Emery Water Users Special Service District for the year ended December 31, 2005, and have issued our report, thereon dated January 26, 2006. As part of our audit, we have audited the District's compliance with the requirements governing types of services allowed or unallowed; eligibility; matching, level of effort, or earmarking; reporting; special tests and provisions applicable to each of its major State assistance programs as required by the State of Utah Legal Compliance Audit Guide for the year ended December 31, 2005. The District received the following major State assistance program from the State of Utah:

Community Impact Grant (Department of Community and Economic Development)

The District also received the following nonmajor grants which are not required to be audited for specific compliance requirements: (However, these programs were subject to testwork as part of the audit of the District's financial statements.)

Mineral Lease (Department of Transportation)

Our audit also included testwork on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance Audit Guide, including:

Public Debt

Cash Management

Purchasing Requirements

Special Districts

Budgetary Compliance

Other General Issues

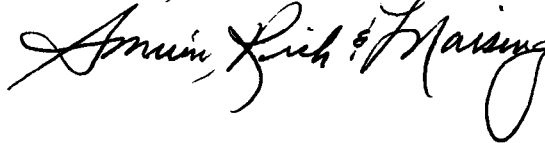
The management of North Emery Water Users Special Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed immaterial instances of noncompliance with the requirements referred to above, which are described in the accompanying management letter. We considered these instances of noncompliance in forming our opinion on compliance, which is expressed in the following paragraph.

In our opinion, North Emery Water Users Special Service District, complied, in all material respects, with the general compliance requirements identified above and the requirements governing types of services allowed or unallowed; eligibility; match, level of effort, or earmarking; reporting; and special tests and provisions that are applicable to each of its major State assistance programs for the year ended December 31, 2005.

SMUIN, RICH & MARSING

A handwritten signature in cursive script, reading "Smuin, Rich & Marsing".

Price, Utah

January 26, 2006

# SMUIN, RICH & MARSING

CERTIFIED PUBLIC ACCOUNTANTS

47 North First East

Price, Utah 84501

Phone (435) 637-1203 • FAX (435) 637-8708

CRAIG G. SMUIN, C.P.A.  
R. KIRT RICH, C.P.A.  
GREG MARSING, C.P.A.  
DOUGLAS RASMUSSEN, C.P.A.

MEMBERS  
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS  
UTAH ASSOCIATION OF CERTIFIED PUBLIC ACCOUNTANTS

Board of Trustees  
North Emery Water Users Special Service District  
P.O. Box 129  
Cleveland, Utah 84518

Ladies/Gentlemen:

The following comments and recommendations are a result of our review of the accounting procedures and internal controls in connection with our examination of the financial statements of North Emery Water Users Special Service District for the year ended December 31, 2005.

Since our review was made primarily to determine the scope of our auditing procedures and was not intended as a comprehensive study or evaluation of the systems and procedures, this memorandum should not be considered all-inclusive.

We welcome the opportunity to discuss any items mentioned in this memorandum or any other accounting or procedural questions.

## STATE OF UTAH GENERAL REQUIREMENTS

### DEPOSIT REQUIREMENTS

Utah Code 51-4-2(2) states that "All public funds shall be deposited daily, whenever practicable, but not later than three days after receipt." During the audit of the financial statements for the year ended December 31, 2005, we found the District had complied in most instances with the three-day deposit rule. But of the forty-five receipts tested, we did find where two cash receipts were not deposited within the three-day period.

We compliment the District on their efforts to comply with the three day deposit rule required by the State of Utah and recommend they continue to make the effort necessary to make sure all funds collected are deposited within three days of receipt.

**Client Response** -- We are aware of the three day deposit rule and have felt we were in compliance, however there were apparently periods of time where we had collected small amounts of money that were held a day or two longer than the three days. Due to the fact that the bank is in another town and that the District only has two employees, the District feels that they have made every effort to comply with this rule. However as a result of holidays, vacations or similar circumstances, the District feels that this may happen from time to time.

### SUPPORTING DOCUMENTATION FOR EXPENDITURES

While performing auditing procedures on the District's disbursements, we reviewed the documentation supporting the payment of current expenses, credit card payments and disbursements from petty cash funds. We selected 24 checks of current expenditures, 18 payments on credit cards and reviewed petty cash vouchers. Our results were: we could not find an invoice for one of the 24 checks examined and we found credit cards were paid from statements and lacked many of the supporting invoices. In most instances, the petty cash fund had pieces of paper with the amount of money taken from petty cash written on it but few invoices to support purchases.

We recommend the District pay bills from invoices and retain invoices as supporting documentation of expenditures. We also feel that internal controls would be improved if invoices for credit card charges were kept and attached to the statement showing the charge. Finally, invoices should support money spent from the petty cash fund.

**Client Response** – This item has been brought up in the board of directors meeting and discussed. In the future accounting staff has been instructed to retain invoices that support purchases by credit cards and only pay bills, which have properly supported invoices.

## **IMPACT FEES**

During the audit, we noticed the District has begun to charge impact fees. For governmental agencies to charge impact fees there are certain steps that should be followed. According to Utah Code Section 11-36-201 (2) (a) "Before imposing impact fees, each local political subdivision shall prepare a capital facilities plan." The plan shall identify: 1) demands placed upon existing public facilities by new development activity; and 2) the proposed means by which the local political subdivision will meet those demands.

Part of the required capital facilities plan includes an impact fee written analysis. This analysis must contain the following elements: 1) identify the impact on system improvements required by the development activity; 2) demonstrate how those impacts on system improvements are reasonably related to the development activity; 3) estimate the proportionate share of the cost of impacts on system improvements that are reasonably related to the new development activity; and 4) based upon the factors and requirements of Utah Code Section 11-36, identify how the impact fee was calculated.

After the capital facilities plan and the impact fee written analysis have been completed, the District must: 1) set the amount of their impact fee, which must be at or below the highest fee justified by the analysis, 2) advertise a public hearing to adopt an impact fee in a local newspaper, 3) make the plan available to the public at least 14 days before the date of the public hearing, and 4) pass an impact fee enactment or ordinance.

It appears that the District may not have complied with all requirements necessary to charge impact fees. We recommend that the District review Utah State Code section 11-36-201 and make sure all steps have been completed so as to comply with requirements associated with assessing and collecting impact fees.

**Client Response** – The District hired an engineering company to do a cost estimate on improving pressure and delivery of culinary water to their customers; this was all put into a master plan for the system. This master plan has provided the District with some guidelines for improving the system in order to allow further connections to be sold, which some of these improvements have already been made, and the other improvements will follow in the near future. The cost of this master plan and the improvements are the Districts' justification for charging the impact fees.

The District will comply with the public hearing rule to adopt an impact fee by holding a public hearing and doing the proper advertising in the newspaper in December 2006.

## **APPROVAL OF CREDITS TO CUSTOMER ACCOUNTS**

In the accounts receivable area, we noticed there were quite a few "other customer credits" reducing the accounts receivables. To improve internal control at the District and to protect employees, it would be helpful to have a board member or the manager approve adjustments to customer accounts.

We suggest the District consider adopting and implementing a policy that would have the manager or the board review and approve credits to customer accounts.

**Client Response** – After reviewing the recommendation and current accounting practices, the board of directors has adopted a policy to review, and approve in board meeting on a monthly basis, all credit memos made to customer accounts.



## **APPROVING PAY RATES**

As part of the audit, we reviewed payroll of the employees, withholding and payment of required federal and state deposits, and checked the approval of employee pay rates. During these procedures, we were unable to locate any documentation that showed the approved pay for employees.

We recommend the board of trustees document employee rate of pay by approving the rate of pay in the board meetings, and having it recorded in the minutes or on a document in each personnel file stating the rate of pay and signed by the board members.

**Client Response** – It has been the practice of the board of directors to document any pay increases for employees. In fact, pay increases are approved in board meetings but unfortunately this year had not been documented in the minutes. In the future the District will document pay increases.

## **SUMMARY**

We feel the compliance and internal control issues mentioned above are areas where North Emery Water Users Special Service District can make changes so as to further improve its internal control structure to safeguard the assets, check the accuracy and reliability of accounting data and promote operating efficiency.

Sincerely,

SMUIN, RICH & MARSING

Price, Utah

January 26, 2006